

LOOKING BEHIND THE GREEN FAÇADE

Jeff Bennett argues that there is a need to look behind the 'green facade' when determining environmental policy

We are regularly faced with a barrage of claims made by the green movement regarding the parlous state of the environment. Associated with those claims are calls for increased government action to curb people's impacts on the environment. For example, we're told that economic development is bad for the environment because it causes pollution and is 'unsustainable' because it will exhaust scarce natural resources. To prevent this, we are exhorted to limit imports, restrict (foreign) investment, and restrain our exploitation of natural resources.

In the face of these claims and calls to action, it is important that society collectively takes a deep breath and considers calmly the veracity of the claims and the implications of the ensuing policies. This is because although the claims are often superficially appealing, they can prove to be questionable on deeper analysis. And the policies following from these claims can have broad and potentially harmful economic, social and even environmental consequences.

The aim of this article is to illustrate the importance of looking behind this 'green façade' in the context of two topical areas where governments are being pressured to act in the name of environmental protection. The first is energy and the second is waste.

Energy

Claims made by the green movement with regard to energy production and use focus on the pollution created by the mining and burning of fossil fuels, and the notion that the world is

'running out' of these non-renewable natural resources. The policy imperative so supported is that renewable energy sources should be promoted by government.

Of course there are pollutants associated with fossil fuels. They range from dust and noise around coal mines, leakage of product from oil wells right through to sulphur dioxide, and some would argue, carbon dioxide at the point of combustion. But the fact that fossil fuels cause pollution is nothing special. All human activities involve pollution. Even the acts of eating and breathing result in waste products being emitted into the environment.

The real challenge for society that arises from any polluting activity, including the extraction and use of fossil fuels, is to weigh the benefits we enjoy from the activities that involve pollution against the costs of those actions. And one such cost is the damage done to people's wellbeing from the pollution. Another way of looking at this trade-off is to consider the balancing act society that faces between the costs of controlling pollution and the benefits enjoyed from having less pollution.

What this logic implies is that statements about fossil fuels being 'too dirty'—particularly when society has already committed a lot of resources to controlling pollution from coal

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mines, oil wells, motor vehicles, and fossil fuel fired power stations—are overly simplistic.

The claim that we are running out of fossil fuels is also superficially appealing. Most people know that we live on ‘space ship earth’ and that fossil fuels take so long to be produced in nature that we are depleting our stocks whenever we burn them. Eventually they will run out.

There is another aspect to the narrative. Given the current rate of use, the world’s known oil reserves will last around 42 years. That doesn’t sound very long. The catch is that this figure of 42 years has been constant for many decades. As we have been using more and more oil, we have also been discovering more and more reserves. The incentives provided by higher oil prices and supposedly dwindling supplies have stimulated more investment in exploration and efficiencies in production.

Furthermore, there is no shortage of substitutes for oil. Developments in the natural gas industry such as ‘fracking’ have been behind recent expansions in known reserves of that fossil fuel. Coal is also abundant, with more than 400 years of supply known to be available. So even among the fossil fuels, there are lots of alternatives without even mentioning nuclear and renewable options.

So the situation is not as straightforward as the initial green claim makes it appear.

The consequences of accepting the green claims and taking up the policy mantle to support renewable energy initiatives are likewise more complex than would initially appear. Policy impacts across economic, social and even environmental dimensions can be negative.

The fact that renewable energy initiatives require government support for them to be implemented by the private sector demonstrates that there are negative economic consequences. In most cases, renewables suffer cost disadvantages compared to their fossil fuel competitors: Solar panels produce electricity at a higher cost than coal-fired thermal plants. Given that costs reflect the relative scarcity of the resources used, the implication is that solar panels use more scarce resources than coal-fired thermal plants. The resources used by the two alternative sources of energy may not be the same but the comparison

of cost provides the best way of comparing their relative scarcity.

For an example of the social costs of pro-renewables policies, let’s turn to biofuel support. In the United States, subsidies are paid to ethanol producers. In Brazil, ethanol is required by law to be added to petrol. These policies have increased the demand for corn and sugar—and pushed up the prices of these commodities. This might be good for corn and sugar farmers but it has been bad for consumers. Mexicans have seen the price of tortillas increase. Pasta prices have risen in Italy as wheat prices have also increased, with farmers growing corn instead of wheat. Even meat and dairy prices have risen because the cost of feed grains has increased. The consequence has been increased levels of real poverty.

Most paradoxically, government support for renewables in the name of environmental improvement has even had negative environmental consequences. Palm oil is a feedstock used to produce bio-diesel. Subsidies for bio-diesel have increased the demand for tropical rainforests in Indonesia and Malaysia to be cleared to expand palm oil plantations. This means loss of habitat for endangered species such as the orangutan. And with the clearance of forests releasing greenhouse gasses, the net impact of the use of biofuels on these gasses is positive.

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Given such complexities behind green energy assertions and the negative consequences of the associated policies, why have policies such as subsidies for households to install solar panels and for farmers to grow biofuel feedstock proliferated in the last decade? One reason is the ability of the green movement to generate political support for its initiatives from unlikely allies. For instance, biofuel subsidies are well supported by mid-west American corn farmers.

Solar rebate schemes are championed by installers and panel manufacturers. Car manufacturers are happy to back the green motivated hybrid vehicle development if they receive government handouts to fund the research and development process. These alliances are reminiscent of the 'baptist and the bootlegger' experience of the prohibition era in the United States. While the 'baptists' were pushing for legislation to ban the production and sale of alcohol, their strongest support came from the 'bootleggers,' who stood to gain from increased production and distribution of illicit booze.

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Waste

The second example of claim complexities and policy contradictions is of solid waste disposal. The claims made by the green movement follow the lines of 'we shouldn't waste our scarce natural resources by throwing them away' and 'waste dumps are ugly, smelly places that are environmental disaster areas.' The resultant policy push is best encapsulated by the waste pyramid: Reduce, Re-use, Recycle. In other words, government policy should encourage people to reduce their production of waste, and if they can't do that, then they should be induced to re-use their waste; recycling should be the last resort. Disposing waste in landfill should not be an alternative—policies such as the ACT's 'No waste to landfill by 2010' exemplify this approach.

The intuitive appeal of 'not wasting things' is readily explained by our childhood exposures to mothers and fathers telling us to 'waste not want not.' Wasting resources just seems dumb. And when we see the packaging that comes with the new TV we just bought, the

proliferation of 'junk mail' in our letter boxes, or the necessity of buying 12 nuts and bolts in a cardboard and plastic box when all we wanted was a single nut, our frustrations come to the fore.

But again, it's just not that simple. People don't create waste for the sake of it. Things like packaging and junk mail are costly so those who use them do so only if the benefits they get from the use exceed those costs. The new TV comes with all that polystyrene packaging so that it arrives in the buyer's lounge room without damage. The cost of replacing less-protected sets damaged in transit outweigh the costs of the packaging. Junk mail is only printed and delivered because we respond to the information provided in the publications. And the packaging around the nuts and bolts is to reduce the costs associated with shoplifting single items.

And yes, waste dumps are not necessarily the most attractive of locations but if managed well, they can end up providing urban open space and be tapped as a source of methane for electricity generation. Their environmental spillovers to neighbours can also be mitigated, and if compensation payments are made to reflect any interim loss of property value, the Not in My Back Yard (NIMBY) syndrome can be overcome. Once again, the situation is far from simple as there are both benefits and costs associated with waste dumps. Trade-offs have to be made.

What then are the consequences if the green assertions are taken at face value and policies such as those that promote recycling are enacted?

In terms of economic impacts, costs tell the story. If subsidies or regulations are required to make people recycle, the implication is that recycling is the higher cost option. That is not to say that no recycling is economically worthwhile. Indeed, it may be cheap and easy to recycle some things; disposal to landfill then really would be a waste of resources. But the more recycling that is done, the more costly it is to take it further. It gets to the point where more resources are used in the recycling process than are saved from being thrown away. Put simply, recycling is not free. It involves transportation, storage and then reprocessing. Trying to recycle everything so that nothing goes to landfill ends

up being just too costly. That is why the ACT's 'No waste to landfill by 2010' plan was quietly let slip as government policy prior to the end of 2010.

There can also be environmental negatives coming from waste avoidance policies. For example, banning plastic bags at supermarket checkouts led to a surge in the production of non-recyclable 'green' bags and the sale of plastic bags to people who could no longer recycle their supermarket plastic bags as bin-liners.

And in Indian cities, where slum dwellers have relied on 'bag-picking' as a source of income, banning plastic bags has led to social problems.

The good news

The list of issues that can be characterised as being part of the green façade and their corresponding policies is long. Included are product certification schemes, population control, the precautionary principle, climate change, and the push for increased efficiency in the ways people use resources such as water. Although this may seem a depressing state of affairs, there are some lights at the end of the environment policy tunnel.

The first is that things aren't really as bad as implied by many at the vanguard of the green movement. There is an abundance of fossil fuels and their substitutes. Waste dumps can be managed to minimise water table contamination and to limit dust and odours.

The second positive is that we should be thankful for being relatively wealthy. Most of the worst environmental problems occur in poor,

developing countries where there is neither the public demand for improved environmental conditions nor the wealth to devote to investments in environmental management.

There is also good news in the role that markets can play in delivering better environmental conditions. It is not necessary to rely solely on government intervention to provide environmental stewardship. But for markets to work, attention needs to be given to the development of societal structures that will afford the emergence of well-defined and well-defended property rights over environmental assets.

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Finally, it must be recognised that there is a potential role for government in managing the environment simply because of the public good characteristics of the goods and services provided by nature. But government environmental policy should remain 'potential' unless it can be demonstrated that its negative consequences are outweighed by the benefits it generates for society. The transparent application of cost-benefit analysis to proposed interventions is important to ensure that vested interests of all colours do not capture the political process to have their favoured policies introduced.